

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|---------------------------------------|---|----------|
| FAILURE OF SALYERSVILLE GAS COMPANY |) | |
| TO COMPLY WITH COMMISSION REGULATIONS |) | CASE NO. |
| AND TO FURNISH ADEQUATE, EFFICIENT |) | 89-174 |
| AND RELIABLE SERVICE |) | |

O R D E R

On July 10, 1989, the Commission on its own motion ordered Salyersville Gas Company, Inc. ("Salyersville") and Grady Conley, the individual responsible for the daily operations of Salyersville, to show cause why they should not be subject to the penalties prescribed in KRS 278.990 for their failure to comply with KRS 278.160(1) and 807 KAR 5:022, Section 13, Subsections (13)(b), (14)(a), (15)(d), and (16)(a). Salyersville was also required to demonstrate that it had a long-term, reliable gas supply for the 1989-90 heating season.

Subsequently, by joint petition filed September 5, 1989, applicants Willie J. Smith and Richard D. Williams ("Purchasers") and Salyersville requested the Commission approve the sale and transfer of the Salyersville system to the Purchasers. The Commission established Case No. 89-251¹ for the purpose of reviewing the proposed sale and transfer of Salyersville. Also submitted

¹ Case No. 89-251, The Joint Application of the Salyersville Gas Company, Inc. and Willie J. Smith and R. D. Williams for the Approval of the Acquisition of the Salyersville Gas Company, Inc. by Willie J. Smith and R. D. Williams.

for review were the Contract of Sale setting forth the terms of the transaction and personal financial data of the Purchasers. All information requested by the Commission has been filed, and the notice of adoption of rates as required by 807 KAR 5:011, Section 11, was filed along with the application. In its December 1, 1989 Order approving the transfer of Salyersville to the Purchasers, the Commission incorporated the record in Case No. 89-251 in its entirety into the record in the instant case.

After consideration of the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Based upon its 1988 Annual Report filed with the Commission, Salyersville sold 22,699 Mcf. After reviewing Salyersville's record of gas purchases in 1988 and based upon the addition of new customers to the system, Mr. Williams has estimated Salyersville's peak needs for the 1989-90 heating season to be 250 Mcf per day. He also estimated that Salyersville's gas purchases for the 12-month period following his assumption of ownership would be 30,400 Mcf.

2. Mr. Williams has stated that gas purchase contracts with existing suppliers will be honored if the supplier wishes and if the gas provided is pipeline quality. Additional gas supply required by Salyersville will be provided by Centran Corporation ("Centran"). Based upon testimony by Mr. Williams and Andrew Fellon, manager of Energy Marketing for Centran, a gas supply contract has been agreed to in principle which would allow Salyersville to purchase up to 1,000 Mcf per day with no minimum purchase required. The contract will also be for a fixed term of

5 years and provide the option of selecting either a fixed price for gas or a price tied to a monthly index. With the Centran contract, the effect is such that any disruptions in supply from Salyersville's existing suppliers should be more than compensated by additional purchases from Centran.

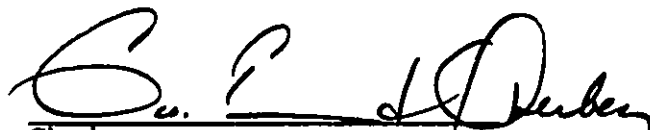
3. Except for a brief period of sub-zero weather during mid-December 1989, Salyersville has experienced no gas supply disruptions, and system pressure has been maintained.

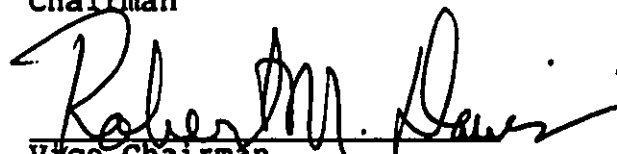
4. Since Salyersville has demonstrated in Case No. 89-251 that a long-term, reliable gas supply exists, the issues in this proceeding are moot.


The Commission HEREBY ORDERS that this case be and hereby is closed.

Done at Frankfort, Kentucky, this 20th day of March, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:



Executive Director